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C O N F I D E N T I A L SECTION 01 OF 02 DOHA 000649

SIPDIS

ABU DHABI FOR MATT EPSTEIN  
CAIRO FOR ALEXANDER SEVERENS

E.O. 12958: DECL: 09/10/2018  
TAGS: [EFIN](#) [EINV](#) [ECON](#) [QA](#)  
SUBJECT: FINANCE MINISTER: QATAR TO GET AAA SOVEREIGN  
CREDIT RATING NEXT YEAR

REF: A. DOHA 518  
[1](#)B. DOHA 331  
[1](#)C. DOHA 422  
[1](#)D. DOHA 603

Classified By: Amb. Joseph LeBaron for reasons 1.4 (b) and (d).

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(C) KEY POINTS  
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-- Kamal anticipates that Qatar's current AA sovereign credit rating will improve to the highest level, AAA, next year.

-- Qatar's Finance Minister is encouraging local banks to raise capital now in order to help them avoid problems plaguing U.S. financial institutions.

-- Qatar plans to make a significant investment in U.S. real estate in the next three months via its sovereign wealth fund.

-- A new unified financial regulator will be formalized soon, after the GOQ finds the right leadership. Within three years, the local banking system and Qatar Financial Center operations will be merged.

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(C) COMMENTS  
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-- The press has been reporting for months on the imminent announcement of a unified regulator. Our financial sector contacts had previously indicated the hold-up was due to an ongoing search for the right senior leadership.

--The GOQ likely wants to tread carefully with the right mix of local and foreign leaders as it undertakes the daunting process of opening Qatar's financial sector to full international competition.

END KEY POINTS AND COMMENTS.

[1](#)1. (C) During an introductory office call with Ambassador September 9, Finance and Economy Minister Kamal said he expects Qatar's current AA credit rating will improve to AAA next year. He said GOQ hedging for risk is based on traditional hedges: (a) geographical diversification (moving static oil and gas reserves into markets throughout the U.S., Europe, and Asia), (b) currency allocation (purchasing and investing in a basket of currencies), (c) classic diversified asset allocations, and, within each asset class: (d) sector allocation.

[1](#)2. (C) Kamal said he has been pushing over the last two years

for Qatari financial institutions to raise more capital. He believes that the current turmoil in global financial markets is due in part to the failure of U.S. banks to raise enough capital three years ago, before there was a crisis.

13. (C) Kamal - who is also one of six executive board members of the Qatar Investment Authority (QIA) - noted that Qatari investments are approximately financed on a debt/equity ratio of 70/30 percent. He added that the QIA often uses no debt for its investments, depending on the sector, with real estate deals usually leveraged and equities bought with no debt. (Note: Other interlocutors, such as the QIA's Managing Director, have told us that financing plays a significant role in QIA transactions - see Ref A).

14. (C) Kamal noted that the Finance Ministry currently budgets in one-year increments, assuming an oil selling price of USD 52 per barrel for the current one-year increment. Excess revenue is transferred to a stabilization fund which is "in the hand of the Minister to play with." (Note: Despite recently improved efforts at transparency, the opaque nature of Qatar's budget/fiscal system renders it difficult to determine what is formally included in government revenue and budgeting, and what is diverted to current operations, a stabilization fund, or other vehicles such as the QIA or a generational reserve fund).

15. (C) Turning to GOQ efforts to encourage economic diversification, Kamal noted that over 60 percent of the economy's development is still government-driven. The GOQ leadership recognizes the need for both a physical and legal infrastructure which will facilitate a more diverse,

DOHA 00000649 002 OF 002

private-sector-led economy.

16. (C) Kamal relayed that the anticipated announcement of a new, unified regulator for the financial sector (Ref B) will be delayed "a little further" because the GOQ wants to "choose the right people" for the board. He framed recent GOQ overtures to other stock market operators (via the QIA) as part of a coordinated plan to raise the management and technological standards of the local market. (Note: Doha Stock Market contacts told Econoff in August that they were still fleshing out the form of their planned cooperation with NYSE Euronext). Kamal said he anticipates Qatar's benefiting from its tie-up with the London Stock Exchange, and it also obtained a "right of first refusal" for new technology developed by Scandinavian stock operator OMX.

17. (C) Kamal projected that in three years there will no longer be a separate Qatar Financial Center, at which point the combination of all the financial and regulatory systems will be accomplished. Through 2012, Kamal anticipates double-digit real growth (in line with IMF/World Bank projections) and a decrease in Qatar's current 15 percent level of inflation.

18. (C) He added that U.S. financial woes would not affect Qatar as much as they had in past downturns, and Qatar is now positioned to take advantage of cheap U.S. assets. Kamal boasted that "I was the only one saying no" during internal GOQ discussions over the past year about revaluing Qatar's currency or depegging from the dollar. He expressed vindication as a result of the dollar's recent recovery, noting that Qatar's assets would have lost value had the GOQ gone with the recommendation of the Amir's Economic Advisor Ibrahim Ibrahim to delink from the dollar.

19. (C) As he and other interlocutors have noted (Ref C and D), Kamal said he expects the QIA to make significant investments in U.S. real estate in the next three months. He also referred to a Qatari pension fund and local bank which will create a joint fund to invest 40 percent of its equity in U.S. real estate, with the other 60 percent split evenly between investments in Europe and Asia.

